

Message Text

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62

ACTION ARA-10

INFO OCT-01 ISO-00 AGR-10 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06 LAB-04

SIL-01 PA-02 USIA-15 PRS-01 L-02 H-02 /108 W

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R 101540Z APR 75

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC 6671

INFO AMEMBASSY GUATEMALA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

UNCLAS MANAGUA 1363

GUATEMALA ALSO FOR ROCAP

EO 11652: N/A

TAGS: EFIN,NU

SUBJECT: CENTRAL BANK MONETARY AND CREDIT POLICIES

SUMMARY. CENTRAL BANK OF NICARAGUA HAS PUBLISHED
MONETARY AND CREDIT POLICIES GUIDING PRIVATE SECTOR FINANCING
INSTITUTIONS FOR PERIOD MARCH 1975 TO APRIL 1976. RULES ARE
AIMED AT LIMITING SHORT TERM CREDITS TO COMMERCE AND
INDUSTRY, RE-DIRECTING CREDIT TO AGRICULTURAL SECTOR, AND
LIMITING PRIVATE SECTOR BORROWING FROM ABROAD AND
REDISCOUNT ACCESS TO CENTRAL BANK. NEW POLICIES, ACCORDING
CENTRAL BANK PRESIDENT, BASED ON OVER LENDING AND ACCUMULATION
OF EXCESS INVENTORIES BY COMMERCE AND INDUSTRY AND A DROP
IN FUNDS AVAILABLE FOR CRDIT IN CENTRAL BANK. COMMERCIAL
BANK RESERVE REQUIREMENTS, HOWEVER, ARE SLIGHTLY EASED.
END SUMMARY

1. AMOUNT OF COMMERCIAL CREDIT NOT SUBJECT TO OBJECTION CANNOT
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EXCEED 95 PERCENT OF CAPITAL AND RESERVES (DOWN FROM 100 PERCENT)
AND SHORT-TERM INDUSTRIAL CREDITS CANNOT EXCEED BALANCE OF

DECEMBER 31, 1974 (A 25 PERCENT INCREASE OVER DECEMBER 1973 WAS ALLOWED IN 1974). EXCEPTIONS FROM LIMITS ARE TIGHTER THAN BEFORE WHEN FERTILIZER AND COMMERCIAL REHABILITATION LOANS WERE EXEMPTED--ONLY THE BALANCES OF SUCH LOANS ARE NOW EXEMPTED FROM THE CEILINGS. OTHER EXCEPTIONS INCLUDE PERSONAL LOANS ALLOWED UP TO 12 PERCENT OF SAVINGS DEPOSITS, SMALL BUSINESS LOANS TO 10 PERCENT OF TOTAL COMMERCIAL LOANS, EXPORT FINANCING, AND WORKING CAPITAL FOR AGRO-INDUSTRY. FINES ARE TO BE LEVIED ON BANKS WHICH EXCEED CREDIT CEILINGS.

2. BANKS WHICH DO NOT LEND A MINIMUM OF 23 PERCENT OF DEPOSITS ON SHORT OR MEDIUM TERM TO AGRICULTURAL SECTOR CANNOT OBTAIN REDISCOUNT FACILITIES FROM CENTRAL BANK OR BORROW FROM ABROAD. MANY BANKS MEET THIS CRITERIA AND OST WILL HAVE NO TROUBLE IN DOING SO.

3. RESERVE REQUIREMENTS HAVE BEEN MODIFIED. LAST YEAR COMMERCIAL BANKS WERE REQUIRED TO MAINTAIN RESERVES OF 25 PERCENT OF ALL DEPOSITS (AT LEAST ONE-THIRD IN CENTRAL BANK, REST IN CASH). SYSTEM NOW REQUIRES PRIVATE BANKS TO HOLD 35 PERCENT OF DEMAND DEPOSITS AND ONLY 10 PERCENT OF TIME AND SAVINGS DEPOSITS WITH THE MAXIMUM NOT TO EXCEED 25 PERCENT OF ALL DEPOSITS. THE RESULT WILL BE TO LOWER RESERVE REQUIREMENTS SOMEWHAT. ONE REASON FOR DISCRIMINATING BETWEEN DEMAND AND OTHER DEPOSITS HAS BEEN A REPATRIATION OF SOME PRIVATE FUNDS INVESTED ABROAD (MOSTLY IN PANAMA) AS INTERNATIONAL INTEREST RATES HAVE FALLEN BELOW DOMESTIC RATES. CENTRAL BANK WANTS TO DIRECT THESE FUNDS TO TIME DEPOSITS AND NOW IS PERMITTING AN INTEREST RATE ONE AND ONE-HALF PERCENT HIGHER THAN THE TOP RATES FOR DEPOSITS OVER C\$500,000. MAXIMUM INTEREST RATES ON DEPOSITS OF MORE THAN FIVE YEARS ON C\$500,000 IS 11.75 PERCENT.

4. CREDIT AND MONETARY POLICIES ARE DIRECTED TO RESTRAINING SHORT-TERM CREDIT TO PRIVATE NON AGRICULTURAL SECTORS. LIBERAL POLICIES IN PAST HAVE ALLOWED COMMERCIAL AND INDUSTRIAL SECTORS TO SPECULATE ON IMPORTS WITH RESULTING
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EXCESS INVENTORY ACCUMULATION AND HAVE CONTRIBUTED TO DOMESTIC INFLATION.
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